ECONOMIC PREVIEW

REGIONS

Week of November 22, 2021

Indicator/Action Economics Survey:	Last Actual:	Regions' View:
Fed Funds Rate: Target Range Midpoint *(After the December 14-15 FOMC meeting):* Target Range Mid-point: 0.000 to 0.125 percent Median Target Range Mid-point: 0.125 percent	Range: 0.00% to 0.25% Midpoint: 0.125%	The data releases will come at a fast and furious pace on Wednesday, because, really, why not pack 113 releases into one morning? Okay, fine, our count may be off, but what we'll be watching the most closely in this week's compressed release schedule will be the inventory data in the reports on new and existing home sales, and whether the run of monthly increases in core capital goods orders was sustained in October.
October Existing Home Sales Monday, 11/22 Range: 5.900 to 6.570 million units Median: 6.180 million units SAAR	Sep = 6.290 million units SAAR	Up to an annualized rate of 6.360 million units. On a not seasonally adjusted basis, we look for sales of 558,000 units, up 1.8 percent from September but down 2.6 percent year-on-year. Inventories, or the lack thereof, remain the dominant story line as they continue to weigh down sales. After a run of five straight monthly advances earlier in the year, our forecast anticipates October will bring the third straight monthly decline. Keep in mind that we are in the part of the year in which inventories tend to fall, so in that sense a decline in October isn't that notable. It becomes so, however, given the low starting point, and our forecast would yield a larger over-the-year decline in listings than that seen in September. Other indicators, such as days on market and the share of cash purchases, continue to point to an extremely tight and competitive market. It is worth noting that, while the pace of price appreciation is moderating, with the over-the-year comparisons having become more difficult since July, price appreciation still resides in double-digit territory, meaning affordability remains challenging for first-time buyers. The market for existing homes remains far from anything that even resembles normal and will remain that way until there is meaningful and sustained improvement on the inventory front.
Q3 Real GDP – 2nd estimate Wednesday, 11/24 Range: 2.0 to 2.6 percent Median: 2.2 percent SAAR	Q3 – 1st est. = +2.0% SAAR	Up at an annualized rate of 2.4 percent. We expect upward revision to the initial estimates of consumer spending and nonfarm business inventories. The BEA's initial estimate of business investment in equipment looked oddly low, so we'll be watching for any revisions to this component of overall business investment.
Q3 GDP Price Index – 2nd estimate Wednesday, 11/24 Range: 5.7 to 5.7 percent Median: 5.7 percent SAAR	Q3 – 1st est. = +5.7% SAAR	Up at an annualized rate of 5.7 percent.
October Durable Goods Orders Wednesday, 11/24 Range: -3.0 to 2.0 percent Median: 0.2 percent	Sep = -0.3%	Down by 0.5 percent. On net, we look for transportation orders to be a drag on top-line orders, with declines in orders for both civilian and defense aircraft partially offset by higher orders for motor vehicles. Outside of transportation, however, we look for moderate but broad based increases across the main categories. Of more significance, we look for core capital goods orders, an early indicator of business investment in equipment and machinery as measured in the GDP data, to post an eighth consecutive monthly advance (see below), suggesting business investment will act as a support for real GDP growth over coming quarters.
Oct. Durable Goods Orders: Ex-Trnsp. Wednesday, 11/24 Range: -0.7 to 1.8 percent Median: 0.5 percent	Sep = +0.5%	We look for ex-transportation orders to be up by 0.8 percent and for core capital goods orders (nondefense capital goods excluding aircraft) to be up by 0.6 percent.
Oct. Advance Trade Balance: Goods Wednesday, 11/24 Range: -\$98.2 to -\$90.0 billion Median: -\$95.0 billion	Sep = -\$96.3 billion	Narrowing to -\$95.9 billion. Plunging U.S. exports of goods resulted in the widest trade deficit on record in September. Though we look for exports to have regained some of that ground in October, the trade deficit will remain substantial and net exports should be a drag on Q4 real GDP growth.
October Personal Income Wednesday, 11/24 Range: -0.6 to 0.5 percent Median: 0.2 percent	Sep = -1.0%	Up by 0.3 percent. Recall that a steep decline in transfer payments, mainly reflecting the expiration of supplemental unemployment insurance (UI) benefits, dragged total personal income down in September. While we look for a further decline in transfer payments in October, it will be much less harsh than that seen in September. Total UI payouts will decline further, reflecting people running off benefit rolls. This will be partially offset by higher payouts for the expanded Child Care Tax Credit after payments for some households that were delayed in September are made up for. The main supports for top-line income growth will be private sector wage and salary earnings, though growth in this component will be limited by a decline in the average length of the workweek, rental income, and asset-based income. One downside risk to our forecast is nonfarm proprietors' income, where the increase net of accounting for the Paycheck Protection Program may not live up to what our forecast anticipates.

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October Personal Spending Range: 0.5 to 1.4 percent Median: 1.0 percent	Wednesday, 11/24	Sep = +0.6%	Up by 1.3 percent. The report on October retail sales showed a sizable advance in consumer spending on goods, but one notable detail was the curiously small increase in sales revenue at motor vehicle dealerships. Curiously small in the context of a 6.3 percent increase in unit sales of new vehicles and sharply higher prices for new and used vehicles. The measure of motor vehicle sales revenue incorporated into the BEA's data on consumer spending is different, and we think more reliable, than the measure incorporated into the retail sales data. All of which is a lengthy way of saying we look for the BEA's measure of consumer spending to show a larger increase in spending on durable goods than implied by the October retail sales data. Keep in mind that the retail sales data do not account for consumer spending on services, which is picked up in the BEA's data. Our forecast anticipates the largest monthly increase in services spending since July, reflecting the late-summer spike in COVID cases having subsided. Given the relative weights – spending on services accounts for roughly two-thirds of consumer spending – about one-half of the increase we expect in total consumer spending is accounted for by higher services spending. One thing the October retail sales data and the BEA data will have in common is nominal sales getting a powerful boost from higher prices. That said, even allowing for a hefty increase in the PCE Deflator (see below), real spending posted a healthy increase in October, putting a strong floor under Q4 growth in real consumer spending.
October PCE Deflator Range: 0.6 to 0.8 percent Median: 0.7 percent	Wednesday, 11/24	Sep = +0.3%	Up by 0.7 percent, yielding a year-on-year increase of 5.1 percent, which would be the fastest rate of PCE inflation since November 1990 and, no, pointing that out does not make us "inflation alarmists." We look for the core PCE Deflator to be up by 0.5 percent, which would translate into a year-on-year increase of 4.2 percent.
October New Home Sales Range: 730,000 to 848,000 units Median: 800,000 units	Wednesday, 11/24	Sep = 800,000 units SAAR	Up to an annualized rate of 848,000 units, in part reflecting what should be modestly favorable seasonal adjustment. On a not seasonally adjusted basis, we look for total sales of 69,000 units, up from 65,000 in September but down 11.5 percent year-on-year and down 16.9 percent from this March, when sales peaked at 83,000 units. While it may be a bit much to say that the levels of single family permits, starts, and sales in March were nothing more than madness (you see what we did there, right?), things have certainly changed since then. Increasingly binding constraints on supplies of materials and labor and rapidly rising input costs amid robust demand growth led builders to basically raise the white flag this summer, in the form of self-imposed caps on sales. Additionally, builders increasingly resorted to what we've referred to as "spec-lite" construction, which saw them begin construction on units but not price them or make them available for sale until construction was well under way. Confident that these units would sell once released, this allowed builders to pass pricing risk on to buyers while reducing uncertainty over delivery dates. While many builders have begun to lift sales-caps, this has been done on a market-by-market, if not community-by-community, basis, meaning only gradual increases in sales. That supply-side constraints remain pressing is working against a more liberal relaxation of remaining sales caps. To that point, our forecast of not seasonally adjusted sales may prove to be too high given that the monthly data on single family permits and starts suggest sales will remain somewhat constrained.

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